

SECRET 25X1 NSC review completed

SUBJECT: Possible Foreign reactions to the proposed new
 U.S. policy on conventional arms transfers

The proposed National Security Decision Directive, dated 27 May 1981, will elicit a variety of responses from three categories of nations: those that support the principle of restraint in international arms transfers and apply some restraints to their own sales for political reasons; those that compete with the United States for a share of the finite international arms market, and those less developed countries that look to the United States as one of several alternative sources of arms.

US allies like West Germany, Japan, the Netherlands and Belgium and other western nations like Sweden and Austria have endorsed the principle of restraint in international arms sales in the past, and impose varying degrees of restraint for political reasons on their own

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arms sales to the Third World. These states are likely to express concern that the new US policy (as outlined in the proposed NSDD) will reduce such restraints on the part of many sellers. Moreover, they will probably be disappointed that the United States will make such sales an essential, as opposed to an exceptional, instrument of US policy. Even if the governments of these nations refrain from comment on the new US policy, political parties and other significant domestic political groups are likely to be vocal in their criticism of the United States. Washington's commitment to arms control in general will appear weaker, and this could complicate the task of governments, particularly in West Germany, trying to maintain national support for increased defense spending and other alliance commitments.

Major western arms sellers like Italy, France and the United Kingdom will be concerned that a new US policy increasing the importance of arms sales in US security policy will cut into their share of a finite international market. Moreover, the US commitment to a "two way street" in the NATO policy of standardizing alliance weaponry may once again be seen as essentially a US plan for encouraging the other allies to buy its weapons and not as a commitment to the purchase of more of their product. These perceptions are likely to add to current strains in alliance relationships and, to the extent that the United States becomes more aggressive in selling arms to the Third World, produce real conflicts of interest there. These nations would then be likely to become more aggressive in their own international marketing of arms.

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Less developed nations friendly to the US that wish to obtain arms to increase their own security will welcome the new US policy. They will expect the US to be more forthcoming to their requests for purchases and will probably expect more favorable terms or credits from Washington. To the extent that current US statutes impede the development of more flexible US terms, some of these nations may become surprised or irritated at this apparent inconsistency.

A statement of new US policy that places arms sales in the context of strengthening the US global defense posture will probably cause some nonaligned states to become more cautious in their purchase or acceptance of US weapons. Most of these states, including some like Saudi Arabia that are important to US interests, wish to avoid clear association with or apparent connection to US plans to increase its ability to project power. They wish to retain their formally nonaligned status and are sensitive to the exploitation of visible ties to US defense plans by internal dissidents or opposition groups. Some nonaligned states could seek to further diversify their arms purchases away from the United States if the new US policy links arms sales directly to the development of US power projection capabilities.

ANNEX: RECENT LEVELS OF WORLD ARMS SALES

Worldwide arms sales surged to a record \$52 billion in 1980. The new peak, built on sharp sales increases by Communist and Western suppliers to a handful of oil-rich Arab states and India, reflects a growth in volume even after allowing for price inflation.

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Soviet French and Italian arms sales all spiraled to new highs in 1980 while US sales were held down by the diversified purchasing patterns of major buyers and the US restraint policy. Moreover, US and UK figures are the only ones which include the value of services and supporting equipment. For the US, two-thirds of its \$17.4 billion in sales fell into this category.

--For the USSR, arms sales of nearly \$15.8 billion were driven far above the 1979 level by a huge Libyan order and large orders by Algeria and India.

--The surge in arms sales by France (to \$8.0 billion) and Italy (\$2.9 billion) was built on continuing demand for aerospace weaponry and naval orders.

--Sales to the Third World totaled nearly four-fifths of the world wide total.

While sales in the early 1980s may swing widely from year to year, we expect them on average to hold around \$39 billion. This will depend to a large extent on the course of price inflation, as well as the composition and sophistication of new arms packages. The core of demand will continue to emanate from, and be controlled by, wealthy Arab states. We expect gradual expansion of the sub-Saharan and Latin American markets.

Despite the drop in deliveries in 1980, we expect a gradual increase over the next few years as arms sellers work off their swollen backlogs.

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